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COMMUNICATION FROM THE COMMISSION

FINANCIAL EDUCATION

1. INTRODUCTION

Financial education enables individuals to improve their understanding of financial products and concepts, and develop the skills necessary to improve their financial literacy; i.e. to be aware of financial risks and opportunities and to make informed decisions in their choice of financial services. It is a life-long issue. Financial education is a complement to measures aiming to ensure the appropriate provision of information, protection and advice to consumers¹. The sum of these policies contributes to empowering consumers to make the best decisions for their financial circumstances.

Numerous international surveys have demonstrated consumers' generally low level of understanding of financial matters and of basic economics. At the same time, the education of citizens in financial matters is becoming increasingly important as innovation and globalisation are increasing the range and complexity of financial services on offer. The current difficulties in the US sub-prime mortgage market, where many consumers have taken on mortgages beyond their means owing, in part, to a lack of understanding of product features, serve as a reminder of the magnitude of the problem. Member States should play a central role but the EU can assist them.

The importance of good financial education has been acknowledged at the global and EU level, including in the White Paper on Financial Services Policy (2005-2010)², the May 2007 Green Paper on Retail Financial Services³, and the European Parliament resolution on financial services policy⁴, adopted in July 2007. The issue of financial education was also raised in the ECOFIN Council conclusions of 8 May 2007, in which the Council invites Member States "to significantly step up their efforts to raise households' awareness on the latter's need to obtain proper information and education, in combination with the financial industry's own responsibilities and initiatives as appropriate, so as to increase households' preparation whilst maintaining adequate investor protection".

Financial education has been announced in the Commission's report on a Single Market for 21st Century Europe⁵ as an essential component of its efforts to ensure that the Single Market can bring direct benefits to Europe's citizens, particularly by empowering them not just to

¹ Consumer information and protection are at the heart of EU financial services legislation. Examples include the Markets in Financial Instruments Directive, with its retail investor protection provisions; the current review of the UCITS directives, including the Simplified Prospectus; the Directives on Consumer Credit, the Distance Marketing of Financial Services and Insurance Intermediaries, and the proposals put forward in the White Paper on Mortgage Credit, which are designed to allow consumers to make the right decisions when purchasing a financial product. The Commission intends to carry out a cross-sectoral study in 2008 on the appropriateness and consistency of information requirements in EU financial services legislation, and it is also reviewed in evaluations of the relevant specific rules.

² COM(2005)629

³ COM(2007)226

⁴ P6_TA-PROV(2007)0338/A6-0248/2007

⁵ COM(2007)724, SEC(2007)1520

shop around for the best financial services, whether in their own Member State or cross-border, but also to understand some essential basics of personal finance.

The purpose of this Communication is to assist stakeholders in the development of financial education schemes by

- Raising awareness of the need to address low financial education.
- Encouraging and promoting the provision of high-quality financial education within the EU, including the sharing of best practice.
- Developing certain practical, facilitating tools to achieve these aims.

2. THE INCREASING IMPORTANCE OF FINANCIAL EDUCATION

The financial services industry is a rapidly evolving one. Innovation and globalisation give individuals access to an increasing choice of products and services designed to meet a variety of needs and circumstances. Technological advances, new electronic delivery channels and financial market integration have increased the range of services offered and the ways in which they are available. But for many citizens, products are inherently complex and future performance is hard to assess. Information asymmetries remain significant: even relatively straightforward financial products can appear quite complex to an average citizen who has little or no financial education. Evidence from recent surveys shows the extent of the problems faced by consumers.

- ***Individuals find financial matters difficult to understand:*** People increasingly recognise that they lack some essential skills to deal with and understand financial matters. This can have significant consequences for their ability to interact with and get the best deal from providers. A Hungarian survey found that consumers were not aware of basic financial terms; 70% of respondents were not aware of the meaning of inflation⁶. A survey carried out in France, Spain and Italy also showed that a large proportion of people on low incomes paid no attention to the difference in costs and terms between financial institutions, and were not able to evaluate them⁷.
- ***Individuals often overestimate their understanding of financial services.*** Consumers are unlikely to be receptive to financial education unless they realise that it is relevant to them. A first step is therefore to raise awareness among people who "don't know that they don't know" about financial issues. Respondents to surveys in the US expressed confidence in their understanding of financial issues but, when tested, demonstrated only a limited understanding⁸. In an Australian survey, while two-thirds of respondents believed that they were financially literate, only around one quarter understood compound interest⁹.

⁶ Gecser, Presentation on 8 steps to teach young Hungarians to use their money in a smart way, Financial Capability Conference, Brussels, 28 March 2007.

⁷ Nieri, Access to Credit: the Difficulties of Households, New Frontiers in Banking Services: Emerging Needs and Tailored Products for Untapped Markets, Springer Verlag: Berlin, 2006.

⁸ Mandell, Personal Finance Survey of High School Seniors, The Jumpstart Coalition for Personal Financial Literacy, 2004.

⁹ ANZ Banking Group, ANZ Survey of Adult Financial Literacy in Australia, 2003.

- *Many individuals fail to plan ahead or choose products that meet their needs.* This means that they are much more liable to fall into debt and to experience difficulties if their personal circumstances change (e.g. due to bereavement, relationship breakdown or periods of unemployment). It also makes it harder for individuals to ensure a satisfactory standard of living in retirement. A UK survey found that at all income levels many people do not plan ahead, and 70% have no provision to cover an unexpected drop in income¹⁰.

However, consumers are willing to learn about financial matters. Despite widespread evidence of low levels of financial education, there is increasing awareness among consumers that understanding financial matters will only become more important for them and their families. A study by VISA found that parents rank the development of good personal financial skills second only to that of personal safety¹¹.

3. ECONOMIC AND SOCIAL BENEFITS OF PROVIDING FINANCIAL EDUCATION

The provision of an appropriate level of financial education to citizens at all stages of life can benefit all ages and income levels. But it also has benefits for the economy and society as a whole. Naturally, financial education should be seen as a complement to adequate consumer protection and to the responsible behaviour of financial services providers. It can in no way be seen as the only solution to remedy information asymmetries between consumers and providers.

3.1. Benefits for individuals, society and the economy

Benefits for individuals

Financial education can help children to understand the value of money and teach them about budgeting and saving. It can give students and young people important skills for independent living, for example in managing and repaying student loans. It can assist adults in planning for major events like buying a home or becoming parents. It can help citizens make better financial provision for unforeseen situations, invest wisely and save for their retirement. It can help people to avoid the pitfalls of payment fraud. People who understand financial issues make better choices of financial services for their particular needs, and are more inclined to heed regulatory risk warnings. They are less likely to purchase products they do not need, be tied into products that they do not understand, or take risks that could drive them into financial difficulty.

Benefits for society

The ripple effects of financial education go well beyond the individuals concerned, with benefits also for wider society. It can help address problems of financial exclusion: those who have received some form of education on financial matters are far more likely to be engaged with the mainstream financial industry, and not have to rely on higher-cost and higher-risk fringe providers or loan sharks. It can encourage citizens, even those on low incomes, to plan and save some part of their incomes. It can help to develop the skills to form the financiers of tomorrow.

Benefits for the economy

¹⁰ Financial Services Authority, Financial Capability in the UK: Establishing a Baseline, 2006.

¹¹ The Jumpstart Coalition for Personal Financial Literacy, Making the case for financial literacy, 2007.

Financial education can contribute to financial stability by helping consumers to choose appropriate products and services, leading to lower default rates, for instance on loans and mortgages, and more diversified and therefore safer saving and investment. This can help to prevent, or at least attenuate, situations such as has been seen in the US sub-prime mortgage market in 2007, with its wider repercussions for global financial markets. Financially educated citizens, able to seek out better, cheaper and more appropriate products and services can drive efficiencies in the financial industry and improve economic welfare by fostering increased competition, spurring innovation and demanding improvements in quality and diversity. Citizens who become confident in investing can provide additional liquidity to capital markets, which can be fed through to small-business financing in the EU, a key element in supporting growth and jobs. Structured and financially literate consumer organisations can also be a political counterweight in the process of preparing regulation, reducing the likelihood of regulatory capture by the financial industry. Therefore there is potential for a significant trickle-through effect of financial education to the wider economy.

Financial education can empower consumers to shop around for the best product for their needs, regardless of the location of the financial services provider, and thereby avail of the opportunities offered by the single market. Conversely, increased financial literacy and customer willingness to move between suppliers may also make it more attractive for financial services providers to enter new markets in other Member States, enhancing cross-border activity.

3.2. Provision of Financial Education within the European Union

Two recent wide-ranging studies funded by the European Commission¹² provide an overview of the various initiatives in place in the Member States concerning financial education in the EU:

- Financial education is provided by a wide variety of actors, ranging from financial supervisory authorities to adult literacy agencies, debt advice clinics, social workers, financial industry federations, microfinance organisations, consumer representatives, education authorities, individual financial firms, housing authorities and others. National authorities (government ministries, financial supervisors, central banks etc.) are the drivers of programmes in 11 Member States.
- The provision of financial education seems to be particularly strong in certain EU Member States, including the UK, Germany, Austria, the Netherlands and Italy. In many others, including Greece, Bulgaria and Latvia, there is limited, if any, activity.
- The most common subject of financial education programmes is "money basics", such as how to use a bank account. This is followed by budgeting skills, including managing credit and debt. The issues of investment, saving and retirement, insurance and risk management feature less highly, indicating that these may be areas requiring greater attention in future.

There is an even split in the profile of the target audiences of the programmes between those aimed at children and young people, and those aimed at adults. Only few schemes seem to be aimed at a more specific public, such as those of pre-retirement age, women, ethnic minorities or those on low incomes.

¹² Observatoire du Crédit et de l'Endettement et al, FES - Better access to financial services and financial education (2007), Report of the survey on Financial Education, April 2007 and Evers & Jung, Survey on Financial Literacy Schemes in the EU27, November 2007

3.3. Evaluating the positive impact of financial education initiatives

Given that behavioural change is only perceptible over the longer term, relatively few evaluations of the benefits of financial education programmes have been carried out. Available data, such as volumes of consumer credit, number of repayment defaults, consumer complaints, and changes in social expenditure in terms of debt mediation can only be of limited use to assess whether financial education initiatives have directly contributed to such behavioural changes. It is difficult to distinguish between the impact of a financial education programme, wider market influences such as employment rates, pay inflation, financial innovation etc., and the personal circumstances and environment that affect the behaviour of the individual.

Evaluations therefore tend to focus on participation in individual financial education programmes. These use measures such as: participant number growth, publications requested, website hits, press coverage, enquiries received, etc. One effective tool some financial education providers, including Member States, use to measure benefits is the use of baseline surveys. These give a snapshot of the level of financial literacy of the population, can help in pointing to priorities, and facilitate the monitoring of progress after a given period of time.

There have also been various attempts to examine behavioural changes that may arise from financial education.

- Evaluations of a UK workplace financial education programme showed that 82% intended to take action (such as contributing to a voluntary pension plan or paying off debts) as a result of attending the seminars; when contacted 3 months later 60% of attendees had already turned these intentions into action¹³.
- Research in the US has shown that retirement seminars are generally associated with significantly higher rates of participation and higher contributions to voluntary occupational pension schemes¹⁴. Other research has also shown that they can influence the accumulation of both net worth and broader measures of wealth¹⁵.
- Research on the effectiveness of pre-purchase home ownership counselling among lower-income borrowers in the US has found that potential borrowers who receive this counselling before buying have on average a 13% lower delinquency rate¹⁶.

These examples show the positive behavioural change that can result from participation in financial education schemes. The Commission intends to promote the disclosure of research and evaluations carried out to date.

¹³ Dredge, Presentation on Financial Capability in the workplace, Financial Capability Conference, Brussels, 28 March 2007.

¹⁴ Bayer, Bernheim, Scholz, The effects of financial education in the workplace: evidence from a survey of employers, June 1996.

¹⁵ Lusardi, Saving and the effectiveness of Financial Education, Pension Research Council Working Paper 2003-14, Pension Research Council, 2003.

¹⁶ Hirad, Zorn, Empirical Evidence of the effectiveness of pre-purchase homeownership counselling, May 2001.

4. CONTEXT FOR ACTION AT EU LEVEL

In full respect of the competences of the Member States for the provision of education, the EU has developed a number of activities in the area of financial education, and can play a supporting role to stakeholders. Furthermore, Article 153 of the Treaty provides that the Community shall contribute to promoting the right to information and education of consumers in order to safeguard their interests and adopt measures which support, supplement and monitor the policy pursued by the Member States in this field. Financial education can also play a useful role in underpinning the Single Market in financial services, by helping to empower citizens to seek out the most appropriate financial service for their needs, regardless of the location of the provider. In this context, there could be a role for action at EU level.

The Commission has already taken some initial steps to address financial education. It has set up a website, Dolceta¹⁷, offering consumer education to adults. This site, translated into all Community languages and adapted to the specific characteristics of each national market, was initially developed for adult education institutions. One of the modules of this site is dedicated to financial services, with subjects including budgeting, consumer credit and home loans, means of payment and investments.

Another initiative is the 'Europa Diary'¹⁸, a booklet distributed to second-level students to inform them of their rights as consumers. It includes a section on money and debt, which explains how financial institutions and products work, and gives early warning about the dangers of excessive borrowing.

In March 2007, the Commission organised a Conference on "Increasing Financial Capability" to highlight the importance of high-quality financial education provision and provide a forum for the exchange of best practices¹⁹.

The Green Paper on Retail Financial Services²⁰ suggested that more could be done to encourage financial education. This view was supported by the vast majority of respondents to this consultation. Many stated that education should remain a matter for national authorities, and proposed that the Commission should play a role in collecting and disseminating information on best practices and in developing non-binding principles to aid financial education providers. Others argued that the benefits of financial education would only be seen in the long term, and that attention should not be diverted from robust consumer protection provisions in financial services legislation.

5. BASIC PRINCIPLES FOR THE PROVISION OF HIGH-QUALITY FINANCIAL EDUCATION SCHEMES

Based on its overview of financial education schemes already running in the EU, the Commission considers that it is useful to define some principles that could aid public authorities, financial services providers, consumer organisations, employers and other stakeholders in their efforts to launch and run financial education programmes²¹. These

¹⁷ Development of On-Line Consumer Education Tools for Adults, www.dolceta.eu

¹⁸ http://ec.europa.eu/consumers/cons_info/consumer_diary_en.htm

¹⁹ A summary of the conference and the presentations delivered can be found at: http://ec.europa.eu/internal_market/finservices-retail/capability/index_en.htm

²⁰ COM (2007)226

²¹ The guidelines are consistent with the OECD's 2005 Principles and Good Practices for Financial Education and Awareness, which were endorsed by all OECD members, including many EU member states (available at <http://www.oecd.org/dataoecd/7/17/35108560.pdf>).

principles take into account the diversity of approaches and methods available to develop a successful financial education strategy.

Principle 1: Financial education should be available and actively promoted at all stages of life on a continuous basis.

Financial education should be available to address the financial challenges associated with real events in citizens' lives, ranging from those experienced by young people to those relevant to retirees. Programmes should be adaptable to citizens' financial situation and level of understanding of financial issues.

Principle 2: Financial education programmes should be carefully targeted to meet the specific needs of citizens. In order to achieve this aim, ex-ante research should be conducted on the current level of financial awareness on the part of citizens, to identify those issues that particularly need to be addressed. Programmes should be timely and easily accessible.

Financial education should meet a specific need: for those starting work for the first time, the unemployed, those planning for a family, young adults, the indebted etc. It is important to ensure that the programme is delivered in a comprehensible manner and in a format that can facilitate consultation or access by the user when he/ she needs it.

Employers should give consideration to how financial education could be delivered through the workplace, possibly in conjunction with information on occupational pension schemes.

Principle 3: Consumers should be educated in economic and financial matters as early as possible, beginning at school. National authorities should give consideration to making financial education a compulsory part of the school education curriculum.

It is essential that basic economic and financial knowledge is acquired by young people at primary and secondary school. The Commission has already issued a Recommendation on key competencies for lifelong learning (2006/962/EC), which supports the development of skills such as the ability to apply mathematical thinking into everyday situations, broad understanding of the workings of the economy and the ability to plan and manage one's life. In this context, consideration should be given by national and regional education authorities to how economic and financial education might be included in school curricula.

Principle 4: Financial education schemes should include general tools to raise awareness of the need to improve understanding of financial issues and risks.

Consumers are not always aware of their lack of understanding of financial issues and financial risks, which is the first step in being open to education on these points. Tools such as self-assessment questionnaires and advertising campaigns on financial knowledge can help in this awareness-raising. Audiences could then be directed to specific financial education materials.

Principle 5: Financial education delivered by financial services providers should be supplied in a fair, transparent and unbiased manner. Care should be taken to ensure that it is always in the best interests of the consumer.

The financial services industry should, after consultation of consumer or investor representatives, be encouraged to take initiatives to contribute to the development of financial

education and to make its expertise available. However, when providing financial education to the public, industry should ensure that a clear distinction is made between general financial education, information with regard to individual products, and advice to a specific customer on a given product or service. Particular care should be taken with regard to the branding of financial education materials, to address any concerns that these lines are being blurred.

Principle 6: Financial education trainers should be given the resources and appropriate training so as to be able to deliver financial education programmes successfully and confidently.

A key issue in developing a successful financial education is empowering those who deliver the training: "teaching the teachers". This does not only mean school teachers, but also social workers, bank employees, volunteers and other client-facing individuals who need to deliver training in a way that most benefits their audience. This will necessitate the development of usable teaching materials and training programmes.

Principle 7: National co-ordination between stakeholders should be promoted in order to achieve a clear definition of roles, facilitate sharing of experiences and rationalise and prioritise resources. International co-operation between providers should be enhanced to facilitate an exchange of best practices.

National authorities, financial services providers, consumer groups, educators and other stakeholders should be encouraged to co-operate in the delivery of financial education. This could help to streamline objectives, result in greater coverage of differing target groups, rationalise and prioritise resources and promote greater learning from experience. Similarly, at an international level, co-operation and networking between practitioners could highlight those areas where greater attention should be focused and facilitate an exchange of best practices.

Principle 8: Financial education providers should regularly evaluate and, where necessary, update the schemes they administer to bring them into line with best practices in the field.

Providers of financial education should incorporate into their programmes an element of regular evaluation of the progress being made and whether targets are being reached. If this is not the case, they should consider amendments of the programme to bring it in line with standards achieved by acknowledged best practitioners.

The Commission invites national administrations, financial services providers, consumer organisations and other stakeholders to develop national strategies on financial education with appropriate financial education programmes with regard to the above principles for financial education.

6. PLANNED INITIATIVES AND PRACTICAL ASSISTANCE

While the Commission considers that the primary responsibility for financial education remains with Member States, non-profit agencies and financial services providers, the EU can be instrumental in providing practical assistance. The Commission has identified the following initiatives as a matter of priority:

- **The creation of a network of financial education practitioners** – the opportunity for networking and learning from experience is supported by many stakeholders. In order to

promote this further, the Commission will establish a group of experts in financial education comprising representatives of Member State authorities (including education experts), financial services providers, consumer organisations and other groups where appropriate. Its aims will be to share and promote best practice on financial education; assist the Commission in identifying problems in its provision; advise the Commission on how the above principles are being implemented; monitor the performance and delivery of financial education and contribute to the evaluation of the measures contained in this Communication in the period to 2010. Calls for expressions of interest in this network will be made early in 2008.

- **Providing sponsorship to Member States and private actors in the organisation of national/regional conferences on financial education** - most financial education programmes are local, regional or, at best, national in scope. As such, there is a need for awareness-raising events to take place as close to the target audiences as possible. The Commission strongly encourages Member States and private actors to organise such events, and can provide sponsorship and European Commission participation. Commission involvement provides a good opportunity to support or encourage the start of national financial education fora, promote best practice at a local level and promote existing initiatives. Such conferences provide impetus, visibility and coverage to financial education issues at the level at which they should be tackled.
- **The publication of an online database of financial education schemes and research in the EU** – Building on the findings of the studies mentioned in section 3.2, above, the Commission will develop an online database of financial education schemes throughout the EU. It will give information on projects with regard to their geographical base, the subject matter covered, the target audience, and the contact details of the providers. The database will also bring together the results of research conducted into financial education and levels of financial literacy in the EU. The purpose of this database is to facilitate consultation of good practice and research findings. The Commission will make every effort to ensure that the data remains accurate. To increase public awareness of this database, the Commission will publish a regular newsletter to bring to attention new, or particularly noteworthy, additions to the database. The online database will be made available in 2008.
- **Development of a teacher training module on financial literacy**– The Dolceta initiative has already proved very useful in facilitating the teaching of financial issues to adult learners. Building on this, the Commission will, from the beginning of 2008, start to develop a module on financial education for teacher-training purposes. This project will be undertaken with the help of pedagogues and financial experts from the European Universities Continuing Education Network. This Dolceta module will provide teachers in primary and secondary education with ready-to-use kits, including internet training, in order to encourage and help them to incorporate financial issues into the general curriculum on a voluntary basis. All materials will be adapted to the national cultures. Upon the completion of this teacher-training module, national development teams will, where possible, participate in teacher-training events to advertise the consumer education materials and encourage teachers to use them.

7. FOLLOW-UP

This Communication is one element in the package of measures on retail financial services set out in the Commission's report on a Single Market for 21st Century Europe, whose aim is to improve the delivery of the benefits of financial market integration to Europe's citizens. The

focus of much of the Commission's future work in retail financial services will be to empower customers to make informed choices. Efforts to increase financial literacy will be an important element of this work.

The Commission will continue to monitor progress of the various initiatives that are outlined in this Communication in order to gain an understanding of whether they are fulfilling the objectives outlined above. In addition to this, the initiatives will be subject to a comprehensive review in 2010.